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Indian Banking Industry: Challenge and Opportunity

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ABSTRACT

The lending share of private banks has jumped from 17.5% to 37.3%. Their deposit share has risen from 17.7% as of March 2010 to 31.4% as of September 2022.Indian banking industry has developed a lot since the first bank was set up in the country in 1870–the Bank of Hindustan. Later on, there have been many developments in this field that have also upgraded the system, and on the same hand brought up so many challenges and loopholes in them too.There are severe concerns regarding the practices in the banking industry which are related to the customer service as the banks are expected to give fair treatment to all of their customers and properly attend to every one of them so that they can easily trust the system with their assets.Most of the rural branches are running at a loss because of high overheads and prevalence of the barter system in most parts of rural India.

Key Word : Backdrop, Banking Secotors,Problems Challenge and Opportunity

Backdrop

The Indian banking sector helps a lot in business development by developing strong ties with foreign countries through establishing branches. According to IMF Report, 36.9% of the total debt in India is at risk and banks have the capacity to absorb only up to 8-9% loss. There are defaulters ho despite having sound financial health do not pay their loans back due to a lack of stringent measures.Banks can fail for a variety of reasons including undercapitalization, liquidity, safety and soundness, and fraud.

A strong and efficient financial system is critical to the attainment of the objectives of creating a market-driven, productive and competitive economy and to support higher investment levels and accentuate growth. Banking by far is the most dominant segment of the financial system and plays a pivotal role in the development of a sound economy. At present, India is with above 150 public and private sector banks with more than 110000 branch network. Indian banking is currently going through a difficult period during this mergers and acquisitions era. However, the problems are not unique to India.

Performance of the National Company Law Tribunals (NCLT): The Committee noted that resolution of larger NPAs under the Insolvency and Bankruptcy Code (IBC) have been taking much longer than the stipulated time period of 270 days.It recommended that NCLTs' resources be increased to enable them to dispose of such cases swiftly.

The history of banking began with the first proto type banks which were the merchants of the world, who gave grain loans to farmers and traders who carried goods between cities. Maidavolu Narasimham (3 June 1927 – 20 April 2021) was an Indian banker who served as the thirteenth governor of the Reserve Bank of India (RBI) from 2 May 1977 to 30 November 1977. For his contributions to the banking and financial sector in India, he is often referred to as the father of banking reforms in India.Banking in India forms the base for the economic development of the country. Major changes in the banking system and management have been seen over the years with the advancement in technology, considering the needs of people.The History of Banking in India dates back to before India got independence in 1947 and is a key topic in terms of questions asked in various Government exams. In this article, we shall discuss in detail the evolution of the banking sector in India.

Banking Sector in India

The Indian banking sector is broadly classified into scheduled and non-scheduled banks. The scheduled banks are those included under the 2nd Schedule of the Reserve Bank of India Act, 1934. The scheduled banks are further classified into: nationalised banks; State Bank of India and its associates; Regional Rural Banks (RRBs); foreign banks; and other Indian private sector banks.The SBI has merged its Associate banks into itself to create the largest Bank in India on 1 April 2017. With this merger SBI has a global ranking of 236 on Fortune 500 index.

The term commercial banks refers to both scheduled and non-scheduled commercial banks regulated under the Banking Regulation Act, 1949.By 2013 the Indian Banking Industry employed 1,175,149 employees and had a total of 109,811 branches in India and 171 branches abroad and manages an aggregate deposit of ₹67,504.54 billion (US$850 billion or €830 billion) and bank credit of ₹52,604.59 billion (US$660 billion or €640 billion). The net profit of the banks operating in India was ₹1,027.51 billion (US$13 billion or €13 billion) against a turnover of ₹9,148.59 billion (US$110 billion or €110 billion) for the financial year 2012–13.

Further, the Committee observed that several lenders have had to take unduly large 'haircuts' (difference between loan amount and the value of the collateral) for some of their loans. It recommended that a reasonable base price should be fixed for bidding so that large ' haircuts' can be avoided by creditors in the course of the IBC process in NCLT.

Powers of the RBI in case of PSBs: The Committee noted that the RBI had stated that some powers available to the RBI under the Banking Regulation Act, 1949 are not available in the case of PSBs. These include: (i) removing and appointing Chairman and Managing Directors of banks, (ii) superseding the Board of Directors, and (iii) granting licences. The Committee also noted that the RBI can, however, (i) inspect the bank, (ii) consult with the government on appointing senior bank officials, and (iii) have a nominee on a PSB' s management committee.

Indian Banking : Problems

Non-Performing Assets:

The commercial banks at present do not have any machinery to ensure that their loans and advances are, in fact, going into productive use in the larger public in-terest. Due to a high proportion of non-performing assets or outstanding due to banks from borrowers they are incurring huge losses.

Competition with Foreign Banks:

Foreign banks and the smaller private sector banks have registered higher increase in deposits. One reason seems to be that non-nationalised banks offer bet-ters customer service. This creates the impression that a diversion of deposits from the nationalised banks to other banks has probably taken place.

Political Pressures:

The smooth work-ing of nationalised banks has also been hampered by growing political pressures from the Centre and the States. Nationalised banks often face lots of difficulties due to various political pressures. Such pressures are created in the selection of personnel and grant of loans to particular parties without considering their creditworthiness.

Capital adequacy:

One way a bank tries to ensure it is protected from bad loans is by setting aside money as a 'provision'. This money cannot be used for any other purposes including lending. As a result, banks have lower capital available to use for its various operations. The Capital Adequacy Ratio measures how much capital a bank has.

Unhedged forex exposure:

The wild gyrations in the forex market have the potential to inflict significant stress in the books of Indian companies who have heavily borrowed abroad," Mundra said in his speech.

Banks are the backbone of every economy. It is very important that banks remain healthy financially. Otherwise, a financial crisis can hit a country leading to recession like the US in 2008.

Asset quality:

The biggest risk to India's banks is the rise in bad loans. The slowdown in the economy in the last few years led to a rise in bad loans or non-performing assets (NPAs). These are loans which are not repaid back by the borrower. They are, thus, a loss for the bank. Net NPAs amount to only 2.36% of the total loans in the banking system. This may not seem like an alarming figure.

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Employee and technology:

Public-sector banks are seeing more employees retire these days. So, younger employees are replacing the elder, more-experienced employees. This, however, happens at junior levels. As a result, there would be a virtual vacuum at the middle and senior level. "

Balance Sheet management:

In the past few years, many banks have tried to delay setting aside money as provisions (for future bad loans). One reason for this is that a bank's chief executives have a short tenure, during which time they want to post higher net profits and cheer investors. "

Indian Banking : Growth

Banking is an integral part of the whole financial system. It affects the country's economy by providing investment, credit, and infrastructure. The banking industry is the backbone of global economies. The banking sector plays a significant role in the economic growth and development of any country.

The banking system of a country upholds its economic development. Considering the economic condition of people, the need for financial services, and the advancements in technology that followed, the Indian banking industry has gone through major transformations over the past five centuries. Digital banking basically means digitization of all banking activities that were traditionally available only by visiting a bank branch–opening an account, transferring funds, making payments, etc.

In 2021, Niti Aayog proposed setting up full-stack ‘ digital banks’ , which will entirely rely on the internet to offer their services and not on their physical branches. This is expected to revolutionize digital banking in India.

Banking Sector : Challenge and Opportunity

Banks are the lifelines of the economy and they play a crucial role in activating and sustaining economic growth, especially in developing countries like India. The banking industry supports one of the fastest growing large economies of the world. Positive macroeconomic and technological trends are driving the growth of new opportunities in the sector. As said by the Hon Prime minster â€œNation can be secured only when banks and depositors are secure With financial inclusion being one of the pillars of Transforming India initiative banks play a major role in this through the schemes like Jan dhan yojana,

Direct benefit transfer and mudra yojana. Recent government initiatives like digital adoption in the country, Aadhaar, digi locker, and Indiastack are creating something unprecedent “publicly accessible , unified digital infrastructure through which customers can allow financial institutions to access their information. Yet the sector is grappling with a set of new realities that are testing its strength and resilience.

Challenges like NPAs, recapitalization, increase in bank fraud, asset quality, human resource issues, are dragging down the industry performance and threatening the future economic growth - this will have implications for both banks as well as for the economy. So, to address these challenges and grab new opportunities central government and RBI came with some reform initiatives. Bad loans problem: After the 2008-09 global financial crisis, there was push in lending to infrastructure and capital goods sectors. But as economic growth faltered, demand slowed and capacity idled, crimping the ability of firms to service their debt. The Indian banking system crumbled under the weight of Rs 10 trillion in stressed assets (including Rs 7.8 trillion of bad loans and 2.2 trillion of restructured loans) that have piled up over almost half a decade.

For the banking system, the rise in bad loans led to higher provisions, which wiped away profits and necessitated more capital infusion. But fresh capital hasnâ€™t been forthcoming with the government on a path of fiscal consolidation and trying to control deficits and because of these lending has slowed down to trickle. In 2016-2017, banks share in the flow of funds to the commercial sector dipped to 38per cent, according to RBIâ€™s financial stability report. This has led to reduced investments, reduced production, unemployment, economic slowdown and finally decreasing economic growth rate.

First , RBI in june had directed the banks to take the 12 largest loan defaulters, accounting for one-fourth of the industryâ€™s bad loans, to NCLT.

Second it prepared another list of 26 defaulters and decided that before initiating bankruptcy proceedings, the banks should recognize the bad assets and they should be resolved through any of the RBIâ€™s existing bad loan resolution schemes like S4A or SDR and only those cases which are not resolved this way should be taken to the NCLT under the bankruptcy code. Example â€“the NCLT decided to dismiss the board of unitech ltd, a leading real estate company, and directing ministry of corporate affairs to nominate 10 directors is a good step to resolve the bad loans problem.

Following recent developments in Indian banking sector -

Real Time Gross Settlement (RTGS)

Electronic Funds Transfer (EFT)

Electronic Clearing Service (ECS)

Automatic Teller Machine (ATM)

Development banks can be known as special industrial financial institutions. These banks were mostly established after World War II in both developed as well as developing countries in the world. Just like elsewhere, the development banks in India are responsible for accelerating the economic development of the country. In the following banking awareness study notes on development banks, we shall learn more about them in terms of meaning, types, features, and more.

The development banks are responsible to provide medium and long-term finances to the industrial as well as agricultural sectors. As well, they finance both private and public sectors.Indian banking plays a big role in the development of the economy of India. It is the backbone of any country' s economy, and its well functioning is essential for nation-building.

Indian banking sector is one of the most active sectors in advancing loans to individuals and institutions. It plays an important role in providing funds to different priority sectors like Agriculture, Small scale industries, trading enterprises, real estate, etc. Indian banking sector helps a lot in business development by developing strong ties with foreign countries through establishing branches. Indian banks also facilitate trade and commerce by providing payment facilities to various local and international business houses.

Current Contributions of Indian Banking

Indian government liberalized the banking sector, allowing private and foreign banks to operate in India. This led to increased competition and the entry of several new players into the market. The introduction of technology, such as internet banking and mobile banking, has also improved the efficiency and reach of the banking system.

The Indian banking system is one of the largest and most complex in the world, with more than 100 scheduled commercial banks and more than 96,000 branches. It has undergone a significant evolution since the country's independence in 1947, and today it plays a vital role in the economic development of India.

The Indian banking system has a wide reach, with branches and ATMs spread across the country, making banking services accessible to even remote areas. The Indian banking system has a strong deposit base, with individuals and businesses depositing large amounts of money in banks, providing a stable source of funding for banks. Indian banks have been instrumental in the development of rural areas, with several programs aimed at providing credit to farmers and small businesses The Indian banking system provides low-cost funds to the industry and the government, which helps in the economic development of the country. Indian banks have embraced technology, with several banks offering digital banking services such as internet banking, mobile banking, and ATMs, making banking more convenient and efficient.

The Indian banking system has a low credit to deposit ratio, indicating that banks lend out a smaller portion of their deposits. Indian banks have high levels of NPAs, which are loans that are unlikely to be repaid. This erodes the banks' profitability and stability. Despite the wide reach of the banking system, many individuals and small businesses in India still have limited access to formal banking services. The Indian banking system is highly fragmented, with many small and regional banks, which can make it difficult for the system to achieve economies of scale. With the increasing use of technology in banking, there is a growing concern about cybersecurity risks, such as hacking and data breaches

Conclusion

Now Conclusion, Lack of banking for the underserved and rural population, which is approximately 69% of India's total population. Around 1.4 billion Indians do not have access to formal banking, as per the World Bank report. Lack of reach in rural areas, where technical enablement and use of financial services remain a big challengeDuring the development years of the Indian banking industry, it is obvious that it would have experienced different levels of problems, and risks and you must have seen an increase in the level of competition. All these developments and problems that took place have also shown their adverse consequences that have brought loopholes in the system and resulted in the malfunctioning of the industry in the past.Every problem or advancement brings a chance for the system to improve and gives them an opportunity so they could learn and excel in their field.

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